

# BUDGET LETTER

<b>SUBJECT:</b> 2003-04 BUDGET REDUCTIONS	<b>NUMBER:</b> 02-21
<b>REFERENCES:</b> BL 02-20 AND BL 02-05	<b>DATE ISSUED:</b> August 7, 2002 <b>SUPERSEDES:</b> 01-27

TO: Agency Secretaries  
Department Directors  
Departmental Budget Officers  
Departmental Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Pursuant to Budget Letter (BL) 02-20, this BL contains the instructions (Attachment I) and forms (Attachments II and III) for the Agencies and departments to propose spending reductions for the 2003-04 fiscal year. To allow sufficient lead time for the Administration to fully consider implementation issues associated with these numerous proposals, Agencies must submit their summary reduction plans by September 13, 2002, with requested back-up documentation and details from departments by October 1, 2002. These reductions are intended to be permanent.

All Agency<sup>1</sup> Secretaries and independent Department Directors are hereby directed to submit Governor's Budget reduction plans that must total 20-percent of all 2002-03 fiscal year expenditures to the Department of Finance (Finance). These reduction plans apply to General Fund and selected non-General funds (departments affected by these non-General funds will be separately notified by your Finance analyst). The reduction plans must be specific proposals to achieve at a minimum the 20-percent ongoing expenditure reduction level for each of state operations and local assistance, independently. Additionally, the 20-percent target applies to each Agency in total, not each department, and the proposed options must be prioritized within the Agency with the first items on the list being the least disruptive reductions.

Agencies should review all programs for reduction opportunities. These reduction plans must incorporate and consider one or more of the following: (1) repeal of statutorily required activities or programs; (2) elimination of discretionary programs; (3) consolidation of programs; (4) Agency reorganization of departments, boards, commissions, and offices (proposed reorganizations that cross Agency jurisdictions must be submitted jointly by the affected Agencies); (5) restructuring program responsibilities between the State and local governmental entities, and (6) reduction in cost and/or service level. Agencies must submit 20-percent spending reduction plans even if they also provide revenue proposals.

The reduction plans must contain ideas that are both realistic and capable of successful implementation to produce the targeted/estimated savings. All program areas must be examined in detail to determine the components that are not truly critical to the department's mission, or cases where a program could function adequately with decreased funding. It should be noted, however, that because of the significant reductions taken during the 2002-03 budget process, it is likely that this level of reduction can only be achieved by elimination of programs in their entirety. Agencies and departments are the experts in their respective programs and are in the best position to determine which reduction ideas would have the least impact on mission-critical programs and services, and can be implemented successfully.

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<sup>1</sup> From here on, "Agency" refers to either an Agency Secretary or a department that does not report to an Agency Secretary.

### **2002-03 base for 20-percent calculation**

The 20-percent reduction is based on the amounts in AB 425, as amended on June 29, 2002. The following areas are exempted from the base:

- ?? Major one-time expenditures in 2002-03 (a detailed explanation of this type of expenditure must be submitted and approved by Finance prior to submittal of the reduction plans).
- ?? Mandatory costs. These are expenditures that are Constitutionally or federally required, or court ordered (e.g., debt service). Programs that are mandated only by State statute are not exempt from the 20-percent reduction. They are not considered mandatory for the purpose of these reduction plans.

### **Savings that would not count towards the 20-percent reduction plans**

- ?? One-time savings would not be accepted **unless** they are accompanied with ongoing savings that begin after the one-time savings cease. If the ongoing savings are of lower amounts, only the lower amounts will be counted towards the 20-percent reduction plan.
- ?? Across-the-board reductions such as increasing salary savings.
- ?? Fee/revenue increase or fund shift proposals. Agencies are encouraged to provide these proposals, but they will be evaluated separately from the 20-percent spending reduction proposals.
- ?? Reductions under Control Section 31.60 related to the elimination of 6,000 vacant positions statewide.
- ?? Annualized savings not achievable in 2003-04. Only the portion of savings that is achievable in 2003-04 will be counted towards the 20-percent plan. Under all circumstances, a 20-percent reduction must be achieved in 2003-04. Therefore, Agencies are strongly encouraged to build in sufficient lead time and design implementation plans to achieve the full year annualized savings in 2003-04 and thereafter.

### **Deadlines**

Summary level reduction plans shall be submitted by each Agency in accordance with the attached instructions and forms no later than September 13, 2002, in both hard copy and electronic form, to Finance. Departments must be prepared to submit back-up documentation and details of the proposed reductions upon request by Finance. For the requested documentation, departments must deliver no later than October 1, 2002. While formal Budget Change Proposals (BCPs) will not be required with the initial submission, they will be required for all reductions ultimately included in the Governor's Budget. Throughout the decision process, Finance will provide guidance to Agencies/departments as to which ideas should be developed into formal BCPs, for which a due date will be established later in the process.

If you have any questions, please contact your Finance budget analyst.



BETTY T. YEE  
Chief Deputy Director

Attachments

**2003-04**  
**20-PERCENT REDUCTIONS DETAIL**

Agency: \_\_\_\_\_

Org/Department: \_\_\_\_\_

Description of Program Option: \_\_\_\_\_

Priority Number: \_\_\_\_\_